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AIR TRANSPORTATION IN THE 1980'S, AND THE ROLE OF IATA

Address By

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to the

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(Ladies &) Gentlemen,

I am grateful for this opportunity to talk to you about the developing scene in the civil air transport industry. And to take a look at the evolving role of IATA - the International Air Transport Association - in the 1980s. It is particularly gratifying to me that some of you are from younger countries where airlines are growing and preparing themselves to play their part in international commerce as an instrument for national development. About two-thirds of present ICAO members did not exist at the time when ICAO and IATA were created or re-created in the mid 40s. If anything, this is indicative of the major changes which have taken place since in world aviation.

It may be helpful if I start by giving a brief description of IATA and its activities. The organization is the trade association for scheduled international and domestic airlines. There are currently more than 100 member airlines from some 85 nations. An additional 137 airlines are our interline partners as signatories to the multilateral IATA standard interline agreements. It is a voluntary, non-exclusive, non-political organization which follows democratic decision-making procedures. I emphasize that it is non-political. This means that the airline representatives from nations with differing economies and political philosophies can and do come together to discuss matters of mutual interest in a friendly and cooperative manner. This is to the benefit not

only of the airlines themselves but of their all-important customers - the passengers and cargo shippers worldwide. Furthermore, their governments - which for political reasons sometimes simply cannot talk to each other - greatly benefit from this neutral forum and instrument for the solution of aviation problems. Here, I should add sometimes there are also other problems with heavier political overtones.

The Association was formed in 1945, in fact at the request of the governments assembled in Chicago to negotiate the post-war world air transportation system. The proposal was made by the governments of Britain, Canada and the US as the solution to a complete impasse between them on important policy issues. Issues which are as topical today as 35 years ago. IATA was intended to be an industry complement to ICAO, entrusted with certain functions governments did not feel that they would or could take on themselves. I should note that it was the successor to the Europe-originated International Air Traffic Association which functioned from the birth of civil air transport in 1919 to the outbreak of the war in 1939.

One of the important functions of the Association is to provide a forum for airlines to <u>discuss</u> (and I must emphasize the word 'discuss') proposals for passenger fares and cargo rates if they wish. And it was this function which the initiating governments wanted IATA to assume on their behalf. But contrary to widely-held beliefs, perpetuated by the media, the Association

does not fix fares and rates. It never has. The governments of the world reserved to themselves the ultimate responsibility for such matters. Therefore, the outcome of the IATA tariff coordination discussions is agreed proposals or recommendations from the airlines to the governments who make the final decisions.

IATA, as a result of an internal review started back in 1975, has been adapted to changing circumstances and geared for the eighties.

The major features of this "new" IATA are:

- a two-tier membership structure, which was introduced last October, enabling airlines to choose whether or not they wish to engage in tariff discussions or to participate solely in the non-commercial or trade association activities which, in fact, represent the bulk of IATA's work;

- flexibility for airlines to develop innovative fares in response to market developments;

- provision for ICAO observers and outside party presentations at traffic conferences, including the Agency Conferences;

- and a spring-cleaning of outdated rules and regulations such as those relating to in-flight service.

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Participation in the tariff discussions is today an optional feature of IATA membership.

The Tariff coordination role on behalf of governments, although very important, is only one of IATA's many and varied activities. Most of the work is carried out quietly, behind the scenes as it does not have the same media and political appeal. It involves more than one hundred and twenty committees, subcommittees, panels, boards, working groups and task forces composed of airline experts. They meet to develop and implement common industry policies, standards and documentation in the wide range of functions involved in airline operation. These comprise such matters as travel and cargo agency affairs, including agent staff training; air mail; economic and commercial research; facilitation - seeking to reduce bureaucracy and cut red tape in customs and immigration procedures; industry finance; legal affairs; security; technical and traffic services; and user charges, such as airport landing fees, air traffic control charges and security costs. And I should perhaps highlight the technical area where ICAO and IATA are inseparable elements in a common effort for safe and rational air transportation as a worldwide public service.

This work makes an indispensable contribution to the smooth operation of the integrated and cohesive global air network. In the interests of the airline customers, IATA's objective is to ensure that people, cargo and mail can move anywhere on this vast network as easily as if they

were on a single airline within one country. And to ensure that they do so with maximum safety and efficiency.

An outstanding example of this endeavour is the interlining system. Because no one carrier serves all points on the globe, some 25 or 30 percent of air passengers and cargo moving internationally use the services of more than one airline. This is made possible through the IATA multilateral interline traffic agreements for passengers and cargo. These provide for the mutual acceptance by the airlines of standard documents including the IATA ticket and air waybill. And they ensure a uniform system between participating carriers of handling, transfer, re-routing and related procedures for all interline passengers, baggage and cargo. As already indicated, the total participation in this multilateral effort amounts to 239 airlines worldwide - representing nearly 99% of total international operation. The number of individual carrier relationships within the common standard agreements exceed 20,000.

Any scheduled air transport operator can become a party to these Agreements which enable a carrier to sell transportation over the routes of the other parties without having to negotiate separate bilateral agreements.

Under this system passengers and cargo shippers can book complex routings, using the services of many different airlines, and make just one payment in a single currency. Naturally, each of the airlines involved has to

receive proper payment for its share of the transportation. This is the function of the IATA Clearing House in Geneva which is an outstanding example of "behind the scenes" cooperation. It enables the airlines to settle accounts worth millions of dollars by single industry-wide monthly settlements. Credits and debits are offset against each other so that a minimum of money actually changes hands. This also eliminates most of the brokerage costs of buying and selling foreign exchange. Last year the total two-way turnover was more than 20 thousand million US dollars.

The Clearing House is now in its 33rd year. By contrast, one of the latest examples of airline cooperation through IATA - Bagtrac - came into operation only some five months ago. This is a worldwide automated baggage tracing service. It facilitates the speedy identification and recovery of misrouted baggage. IATA is responsible for overall administration of the service. SITA - the airlines' global telecommunications service - provides the technical support through its data processing centre which is connected to member airline offices worldwide. Already some 30 airlines are either participating or have indicated their intention of joining soon.

The airlines and IATA have always placed great, perhaps primary emphasis on safety. The Association's technical activity is founded on full exchange of information and experience among airlines. From this data they distil common requirements and standardized activities. It also enables them to give practical advice to governments. And it helps to set up guidelines for

future development in air transport technology.

The examples I have mentioned are a mere handful of the total range of airline joint ventures initiated and developed through IATA over the years. The Association's guiding principle is multilateral cooperation between airlines, and between airlines and government authorities and international agencies, to secure major benefits for the consumers, the travelling and shipping publics.

A point I wish to stress - because it is sometimes not fully appreciated - is that IATA is essentially its member airlines -- in the same way as ICAO is essentially contracting States. It is not some independent organization with an arbitrary will and purpose of its own. Its function is to reflect the wishes and views of its members, and it acts as a secretariat and a working tool for the airlines in matters of common concern. Indeed, as I have mentioned, much of the basic work of IATA is carried out by staff from the member airlines, serving on the various committees, sub-committees, working groups and task forces.

That is the background to IATA - what it is and the sort of things it does. Let's take a look now at the current picture of international air transport. And then see how this all shapes up for the future. We can do this under two headings - economic and regulatory. By regulatory I mean the framework of governmental regulation - or deregulation - within which the airlines operate.

Regrettably, I have to say that the economic picture is not looking good as we enter the 1980s. The airlines of the world are caught in a nasty squeeze between soaring costs and sky-high interest rates on the one hand and sagging yields on the other. The result is diminishing or disappearing profits. Many airlines are deeply in the red. We do not have to be economists or financial geniuses to see that savagely escalating fuel prices and steep inflation virtually worldwide run counter to the pressures for ever cheaper air fares exercised naturally by the public, but perhaps less naturally by many governments who actively contribute to the steeply increasing costs.

Major airlines are already cutting back on orders for new, more fuel-efficient equipment, or slowing the rate of delivery, because they cannot now afford to buy it. Some airlines are trying to sell-off part of their existing fleets to raise cash to keep going. The Boeing Company of Seattle -- which builds more than 60 per cent of the non-socialist world's commercial airliners -- has decided to reduce production by about 12 per cent next year. The orders just aren't there. This is an ominous sign of the times.

The 1979 operating result for worldwide scheduled international services is estimated to have been no more than 420 million dollars. This is insuffucient to cover even interest charges, which amounted to 657 million dollars. Nothing was left for retention in the business, for future equipment funding, or for dividends. It is broadly estimated that the industry is

almost three billion dollars short of a level of earnings that would put it on a financially competitive footing in the capital market.

It is unlikely that the industry can count on any improvement in 1980. Preliminary analysis points to a need for average yields to increase by nearly two and a half times as much as they did in 1979 in order to match expected fuel and other cost increases this year. Present indications are that traffic growth is likely to be limited. It must be concluded that the implications for 1980 industry economics are bleak indeed.

The airlines of the world must earn sufficient revenues not only to cover their operating costs and taxes but also to meet interest payments and to finance the purchase of new aircraft and ground equipment. Privately-owned free enterprise airlines must generate sufficient profit to pay dividends to their stockholders. Many state-owned airlines are in a similar position in relation to their governments who expect a return on capital invested in their carriers. At the very least, governments look to their airlines to break-even so as not to become a burden on the taxpayers.

It follows that the fares and rates charged to passengers and cargo shippers must be pitched at a level calculated to generate the required revenues. At the same time they must not reach levels which would discourage people from using air transport. It is a neat dilemma which calls for some adroit fine-tuning of airline tariffs. This is why we have lately seen a proliferation of different fare types aimed at specific segments of the market.

Such as the three-class concept now common on many long-haul routes. Or the total elimination of first-class service on some short-haul sectors in favour of the business or club class. Most major carriers, particularly on the long-haul sectors, reserve a proportion of their capacity for the very low level discount travel where in-flight cabin service has been reduced to the bare minimum for those passengers to whom the prime requisite is cheap transport from point A to point B.

I believe that this basic type of reduced rate travel is here to stay. But if fuel costs and the general rate of inflation continue to rise, this must inevitably be reflected in higher fares for all classes of air travel. Otherwise the airlines will go broke and service to the public will suffer. Air transport is today such a vital and integral part of world commerce that its financial viability is - or should be - a matter of prime concern to all governments. Governments make the final decisions on what prices the airlines can charge. Many governments also have a decisive influence on important cost sectors such as charges. Therefore, if aviation is to continue, carriers need the positive and practical understanding by both individual governments and ICAO of the problems involved.

Which brings me to the broad picture of the government regulatory framework within which the world's airlines operate. It is rather a confused picture at the moment. A largely contributing factor has been a political thrust towards deregulation by the USA -- with the general aim of reducing government

involvement in and interference with the life of the private citizen. Domestic aviation was a primary target of this policy -- which because of the nature of aviation predictably is having repercussions worldwide.

To put this into perspective, I must go back to where I started from with the events of those closing days of World War II when representatives of 54 states met in Chicago to establish a new world order in civil air transport. That conference led directly to the formation of the International Civil Aviation Organization -- ICAO. This, as you know, is the intergovernmental UN agency responsible for the technical, operational and legal framework for international air transport. Discussion in Chicago of commercial aspects produced a consensus in favour of multilateral negotiation by airlines of fares and rates proposals for submission to governments. Such issues as specific routes to be operated, the capacity to be provided and which airlines should fly them were reserved for resolution bilaterally between the governments concerned.

I have already mentioned that as a result of the Chicago discussions that the airlines put together their international trade association, IATA. At its first AGM in October 1945 the Association established the machinery for multilateral negotiations on fares and rates worldwide. However, it must be emphasized again that tariff agreements arrived at in IATA have always been in the form of recommendations to the respective governments without whose approval the suggested fares and rates could not come into effect.

The use of the IATA tariff negotiating facilities offers many advantages including the ability to blend fares for a variety of destinations, to facilitate long-haul multi-stop operations, to avoid subsidy wars, to utilize to best advantage the combined commercial and financial skill and knowledge of the airlines and, most significantly in the light of later developments, to lessen the possibility of head-on government conflict.

This basic pattern for the regulation of international air transport with multilaterally and bilaterally agreed checks and balances for the protection of the public prevailed for more than three decades. During this time, the US Government's strangely semi-independent regulatory body for aviation, the CAB, approved the IATA multilateral tariff coordination activities and, most importantly, granted them immunity from the provisions of US anti-trust law.

However, in recent years the value of this multilateral approach to tariff affairs has been questioned in the USA - not on the basis of substantive evidence of its uselessness or damaging effect on international aviation but on the basis of political conviction. This unilateral attitude has caused very real and deep concern to a substantial number of other nations and their airlines - and even other US government agencies. Many countries have laws relating to competition and monopolistic practices. But only US anti-trust laws are so far-reaching that a court may envisage sanctions on the activities of foreign nationals undertaken

abroad - with fines of up to one million dollars and terms of imprisonment of up to three years - if such activities are deemed to have a substantial adverse impact on US trade.

The emphasis on deregulation in the USA must be seen in the general context of what has come to be known as reduction of government involvement in the lives of private citizens and as "consumerism". This seems to proceed on the assumption that rock-bottom air fares and cargo rates and increased air travel will automatically result from unfettered competition between airlines having the ability to enter or leave routes at will and to pile on as much capacity as they choose. We shall see.

Domestic US cargo deregulation was introduced in December 1977, followed by passenger deregulation in November 1978. The USA - like any sovereign nation - obviously has every right to conduct such an experiment within its own borders. It is early yet to draw firm conclusions about the benefits or otherwise of the US domestic deregulation. But there are some very clear signs that it is not the panacea that some people imagined. In any case, a full economic cycle is needed to test the validity of deregulatory theory in good times and bad.

Incidentally, there are signs that the air transport industry moves in five-year cycles. Both 1970 and 1975 were poor years for airline finances. But in 1973 and 1978 airlines enjoyed their best profit performances in the seventies. In

1980 we are now in another trough. If the cycle runs true to form, perhaps we shall see an upturn in the next year or so and another peak in about 1983. Let's hope so.

In the meantime - and coincident with their domestic deregulatory moves - the US also began to seek "liberalized" bilateral agreements for international services on various routes. These new agreements are termed as liberal and market-oriented, with emphasis on low fares, new gateways, direct or point-to-point service and multiple designation of competing airlines. Thus, in the 'liberalized' agreements the governments concerned have in effect moved into the area of tariff matters, on a bilateral basis, in respect of the routes between their countries instead of working through the multilateral process. And there are now several examples of such bilateral government to government tariff agreements which directly disrupt the multilateral system.

There is, therefore, more, instead of less, direct government involvement in the international air transport industry. In the last year what amounts to price negotiations government-to-government have in fact taken place between the US and France, DA-NO-SW and Ireland. And there is a clear danger of fragmenting the integrated worldwide air transport network which has been carefully built up over the past sixty years.

Today's situation is that the CAB has tentatively decided to deny anti-trust immunity to United States airlines in North

Atlantic traffic conference discussions thus denying them the opportunity to take their proper place in the affairs of this major route area. However, in a submission to the CAB mid-June, the US DOT produced what amounts to a much more flexible formula -- I assume dictated not the least by the present economic conditions in aviation. I should add, for completeness sake, that the CAB is threatening to withdraw anti-trust immunity totally from all IATA tariff coordination activities in two years' time.

Such unilateral action has immense implications and flies in the face of the massive support for multilateral negotiation at an ICAO air transport conference in Montreal in February of this year which adopted a recommendation stating:

o that the examination of any system for the multilateral establishment of international tariffs should involve the participation of the entire international aviation community.

o that unilateral action by governments which may have a negative effect on carriers' efforts towards reaching agreement should be avoided.

o that international tariffs should be established multilaterally and when established at regional level the worldwide multilateral system should be taken into consideration.

o that the worldwide multilateral machinery of the IATA traffic conferences shall, wherever applicable, be adopted as a first choice when establishing international fares and rates to be submitted for the approval of the states concerned, and that carriers should not be discouraged from participation in the machinery.

It is important to stress that this worldwide international reaction is not antiliberal but is directed against what is perceived as an attempt to unilaterally change the world air transportation structure.

Outside the USA, moves towards deregulation are appearing in other parts of the world - such as Europe and the UK - but the responsible authorities in those areas have fortunately shown an appreciation of the need to proceed in international consultation step-by-step towards the desired objectives. They understand the benefits of a gradual and common approach to this important question as opposed to a unilateral precipitate and headlong rush in pursuit of a dogmatic objective.

As a side remark I should perhaps mention that the question has been raised - 'why the especially violent reaction of the governments of developing nations to the CAB policy' - individually, regionally, and collectively, latest at the ICAO ATC early this year. I believe that deregulation is perceived internationally as a very mixed blessing, which is probably compounded by the present negative impact on

yields. Perhaps the developed world's carriers can absorb this, but what about the small airlines of developing nations? And surely the widening gap between fares to and from rich countries and those to the poorer countries of the world is a significant contributing factor. The relative fuel costs in industrialized and in developing countries also may give a clue to the violent reactions.

A current development of considerable significance in the evolving pattern of international air tranposrt is the growing importance of regional airline associations in various parts of the world, partly as a defensive reaction to the deregulatory trends I have mentioned. At this time there are seven such organizations outside the Socialist bloc -- Arab Air Carriers Organization; African Airlines Association; Association of European Airlines; Association of South Pacific Airlines; Orient Airlines Association; Air Transport Association of America; and, inaugurated this year, Asociacion Internacional de Transporte Aereo Latinoamericano. The membership of these groups is composed of airlines many of which are also members of IATA, so there is opportunity for exchange of views and, indeed, provision for the regional organizations to be represented at IATA conferences.

The existence of these groups emphasizes the value of cooperation and multilateral discussion. The advantages of mutual support are particularly beneficial to the emerging airlines of developing countries which appreciate the strength of joint endeavour.

In this connection, the IATA Annual General Meeting in Manila last November created a special Task Force to review the activities and services of the Association in relation to the airlines of developing nations. Specifically, the Task Force was set up to consider how such airlines might make better use of the existing services. And to explore what new services or activities might be developed or existing ones adapted to help these airlines.

The Task Force is under the chairmanship of Brigadier General Enos Haimbe, Chairman of Zambia Airways. The members comprise top level representatives from leading airlines throughout the world - Air Afrique; Aer Lingus; Alia; Air New Zealand; Avianca; CP Air and PIA.

This Task Force has tackled its mission in three stages. First there was a questionnaire to establish which member airlines wished to be involved and to lay the groundwork for subsequent discussions. These -- stage two -- took the form of four seminars in different parts of the world, South America, Africa, Singapore and Jordan. These took place in recent weeks and a total of 40 IATA member airlines and 17 non-members participated. The seminars gave a clear insight into how IATA, in cooperation with strong regional airline associations, can focus some of its specialist activities to give greater support to the needs of emerging and evolving airlines, particularly in such matters as staff training.

The meetings also strongly emphasized the support of the

airlines for multilateral worldwide cooperation through IATA to best serve the needs of the public.

Stage three of the programme is now underway. This is an in-depth review of the results of the seminars by the members of the Task Force under the direction of Brigadier General Haimbe. Their conclusions and recommendations will then go forward to IATA's Executive Committee for subsequent discussion at the Annual General Meeting in October.

This practical concern for the healthy growth of the airlines of developing nations is one instance of the way in which IATA is confronting the formidable tasks ahead in the 1980s.

Ladies and Gentlemen, I have endeavoured in the time available to give as complete a picture of IATA -- its purpose and function -- as possible and to sketch the broad outlines of the current economic and regulatory scene. It would be misleading of me to pretend that all is well in the airline industry at the moment. And dishonest to gaze at the future through rose-tinted spectacles. The 1980s are not going to be easy. In fact we are in for a turbulent ride. But I think we can take heart from two factors. One is the apparent five year cycle of good and poor financial results. This would indicate an upturn in airline results in the next two or three years if it runs true to form. The other is the proven resilience of the industry in adapting itself to changing circumstances. This, I submit, has been clearly

exemplified in the manner in which its trade association has been -- and is -- evolving to meet the needs of the 80s.

Thank you.